ATLANTIC PROVINCES ECONOMIC COUNCIL | CONSEIL ÉCONOMIQUE DES PROVINCES DE L'ATLANTIQUE

Commentary

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Federal Budget 2008: Implications for Atlantic Canada

The Conservative government's third budget, tabled today by Finance Minister Jim Flaherty, is extremely frugal in terms of new tax and spending initiatives. Only $1.5 billion worth of new fiscal measures were announced for fiscal year 2008-09. By contrast, the tax cuts (notably to the GST and corporate income tax) announced in last fall's Economic Statement amounted to $9.4 billion for the 2008-09 fiscal year.

Nevertheless, Mr. Flaherty is walking a fine line given the current weakness in the U.S. economy and consequent risk of a larger slowdown in Canada. The projected budgetary surplus (to be allocated to the debt) is only $2.3 billion in 2008-09 and $1.3 billion for 2009-10. This is a much lower that the $3 billion buffer (or more) we have seen in recent years. If the economy and hence government revenues turn out to be much weaker than expected, the government may have to trim its spending to avoid a budget deficit.

There is no major tax relief in this budget. The main tax initiative is a Tax-Free Savings Account that will allow individuals to invest up to $5000 per year with investment income and capital gains earned within the account free from tax. This will primarily benefit middle and upper income individuals and families who have a greater capacity to save. Unlike RRSPs, contributions to the savings account are not tax deductible.

Budget measures that are particularly relevant in Atlantic Canada include the following:

Industry

- The special accelerated capital cost allowance for investment in machinery and equipment by manufacturers is being extended for a further three years. This will help Atlantic manufacturers seeking to restructure and reinvest in the face of the higher Canadian dollar and other competitive challenges.
- About $22 million is being provided over two years to improve regulatory certainty and to spur research and innovation in Canada's aquaculture industry.
- Natural Resources Canada is being given $10 million to promote Canada's forestry industry overseas in regard to environmental sustainability.
- The Mineral Exploration Tax Credit is being extended for a further year, which should help sustain the rapid increase in mineral exploration in the Atlantic region.

Innovation

- The R&D spending limits for the Scientific Research and Experimental Development (SR&ED) tax incentive are being increased from $2 million to $3 million, which will help small Atlantic companies such as those in the region's fledgling bioscience sector. Perhaps more importantly, there is a commitment of $10 million annually to facilitate access to the program and improve its consistency and predictability.
- Genome Canada will receive an extra $140 million in 2007-08, part of which will help sustain regional genome centres, including Genome Atlantic.
- The three granting councils will receive $80 million per year, including $34 million for NSERC focused on the automotive, manufacturing, forestry and fishing industries.

Infrastructure and transportation

- The Gas Tax Fund, which provides municipalities with funding for public transit, water and wastewater infrastructure, will become a permanent $2 billion per year fund beyond 2013-14. In Atlantic Canada, municipalities will receive $76 million in 2008-09, rising to $152 million for 2010-11 and beyond.
- A $500 million trust fund will be set up, to be allocated on a per capita basis, for public transit infrastructure, implying about $35 million for Atlantic Canada.
- Marine Atlantic, which provides the ferry service between Newfoundland and Nova Scotia, will receive $17 million over two years to secure a new vessel.

Border security

- The Canada Border Services Agency is being given additional resources ($75 million over two years) to help manage the border along with an expansion to the NEXUS program for low-risk frequent travellers between Canada and the Untied States and other measures to improve border efficiency. Border delays, inconsistencies and higher costs to meet new security standards have been identified by Atlantic businesses as significant obstacles to trade with the United States.

Education

- A new Canada Student Grant Program is being launched, effective fall 2009. It is designed to be simple, transparent and broad-based, with the intent of increasing participation and completion rates, particularly among under-represented groups. The program is expected to reach about 245,000 college and undergraduate students in the first year, about 19% of current enrolment. In Atlantic Canada, there are close to 100,000 college and undergraduate students. Other changes include modernizing the Canada Student Loans Program, new graduate scholarships and new research chairs.

Labour market participation

- The Targeted Initiative for Older Workers is being extended to 2012 at a cost of $90 million. The program is designed to help unemployed older workers remain active participants in the labour market. Many older workers in Atlantic Canada have been displaced following plant closures throughout the region.
- The earned income exemption under the Guaranteed Income Supplement is being increased from $500 to $3500, to remove disincentives for low-income seniors to work.

Employment insurance

- The employment insurance (EI) account will be managed by a new, independent Crown corporation, with any surpluses being retained in the EI program rather than going into general revenues. A new rate-setting mechanism, to begin in 2009, will set rates to ensure that revenues match expenses over time.

The environment

- The government is providing an additional $300 million to AECL in 2008-09 for its operations, including the development of its next generation nuclear power reactor, the Advanced CANDU Reactor. This may support New Brunswick's development of a second nuclear power plant, if the business case and feasibility studies are positive.
- The federal government is providing $5 million in 2007-08 to support geological research examining the potential for carbon storage in Nova Scotia.

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